

W E S T A R



Westar Mining Annual Report

AR42

I N I N G

A N N U A L

R E P O R T

★ 1 9 8 4 ★





C O R P O R A T E P R O F I L E

Westar Mining Ltd. produces and markets coal mined in southeastern British Columbia, operates Westshore Terminals Ltd. at Roberts Bank south of Vancouver, sells mining consulting services and has a major oil and gas investment in the United Kingdom sector of the North Sea.

The Company is Canada's largest exporter of metallurgical coal, which is used in the manufacture of steel, and a supplier of thermal coal to overseas power plants and specialized industries. Its Balmer Operations near Sparwood, B.C. include a large surface mine, one underground mine and coal processing facilities. Its Greenhills Operations are 80 percent owned with the balance held by Pohang Iron and Steel Company Limited of

Korea. It includes a surface mine and coal processing facilities located near Elkford, B.C.

Coal sales and customer relations are handled by a marketing subsidiary, Westar Mining International Ltd., headquartered at Corporate offices in Vancouver with other offices in Tokyo and Paris.

The Company owns 100 percent of Westshore Terminals Ltd. at Delta, B.C., the largest bulk loading terminal on the Pacific Coast. However, in March 1985, it signed a letter of intent to sell the port to Westar Industries Ltd., subject to certain approvals.

A wholly-owned subsidiary, Westar Engineering Ltd., provides consulting and management services in the fields of general engineering, mining and computer services.

Westar Mining has a 7.7 percent interest in Brae, an oil and gas field about 250 kilometres off the east coast of Scotland. It includes South Brae which began production in 1983 and North Brae which is now undergoing development.

Westar Mining is owned 67 percent by British Columbia Resources Investment Corporation of Vancouver, B.C. and 33 percent by Mitsubishi Corporation and nine Japanese coal consumers. It has 2,040 employees and about 2,000 holders of preferred shares.

H I G H L I G H T S

	1984	1983
	(Thousands)	
Operations		
Coal shipments — (tonnes) — Metallurgical	6,966	5,663
— Thermal	1,064	507
Oil production — (barrels)	2,307	559
Revenue	\$ 646,395	\$ 465,426
Earnings before extraordinary items	40,922	60,656
Net earnings	26,198	60,656
Funds provided by operations	145,974	137,818
Capital expenditures	42,403	180,729
Financial Position		
Working capital	\$ 5,195	\$ 27,078
Total assets	1,181,716	1,207,123
Long-term debt	610,358	697,044
Shareholders' equity	276,758	247,736
Other Information		
Number of employees (at December 31)	2.0	2.1
Wages, salaries and employee benefits	\$ 100,495	\$ 103,223

Shipments include all coal shipped from the 80 percent owned Greenhills Mine.

Tonnage figures are expressed in metric tonnes of 2,204.6 pounds. One barrel of oil equals approximately 159 litres.

REVIEW OF OPERATIONS

The coming into production of several major new mines in Australia and Canada, and a surplus of coking coal in the United States contributed to a condition of oversupply in world markets. Despite some slight increase in steel production and improved economic conditions, the oversupply situation forced down prices paid by Japanese steel manufacturers, the largest importers of metallurgical coal.

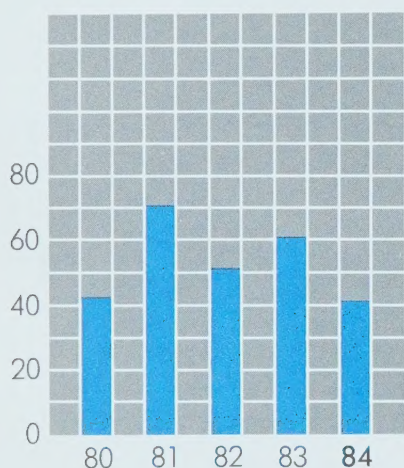
Despite the glut of coal in world markets, Westar Mining managed to increase total coal shipments by 30 percent in 1984, largely as a result of the first full year of operation of the Greenhills Mine, of which it owns 80 percent, and increased sales to new customers in Europe. However downward pressure on prices, interest charges on completed projects and higher costs continued to squeeze profit margins, resulting in earnings before extraordinary items of \$40.9 million, compared to \$60.7 million in 1983. The 1984 earnings were made up of \$28.3 million from coal and port operations and \$12.6 million from the South Brae oil field. This compares with 1983 earnings from

coal and port operations of \$57.1 million and \$3.6 million from the South Brae, which began production in the last half of 1983.

Total revenues increased by 39 percent to \$646.4 million from \$465.4 million in 1983. These include revenues from the South Brae oil field of \$117.9 million compared to \$27.6 million in 1983. Funds provided by operations rose by six percent to \$146.0 million during 1984, from \$137.8 million the preceding year. An extraordinary loss of \$14.7 million on the abandonment of the underground hydraulic mine at Balmer Operations reduced 1984 net earnings to \$26.2 million. There were no extraordinary items in 1983.

Mining

Aware that 1984 would be a year of higher costs and soft prices, Westar Mining took a number of steps to ensure that it remained as profitable as possible under the circumstances. It continued with its rigid cost control programs, altered the mining plans at Balmer and Greenhills to reduce costs and improve productivity, and began to phase out less economical underground coal



Earnings before
extraordinary
items
(millions of dollars)

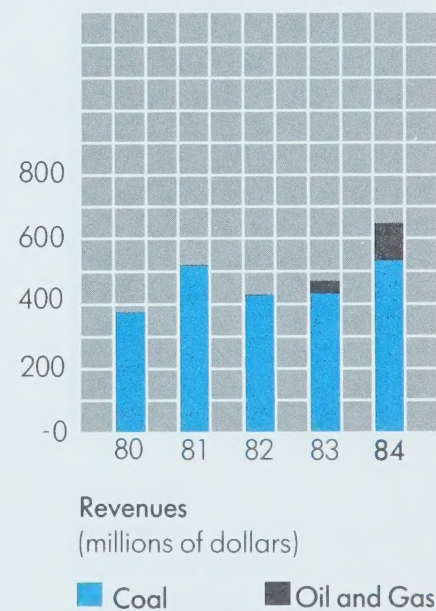
production and increase surface mine production at its Balmer Operations. These steps were complemented by an agreement to extend the Balmer long-term contract with the Japanese steel mills and a commitment from them to begin negotiations to extend their long-term contract for Greenhills metallurgical coal. The Greenhills negotiations are expected to be completed by October 31, 1985.

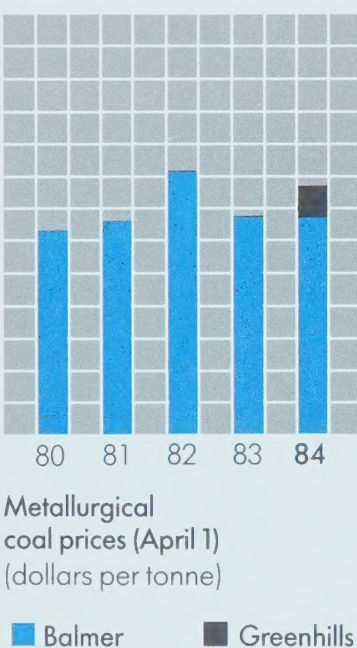
The Company was able to substantially increase its revenues by an aggressive marketing program that resulted in the sale of an additional 1.1 million tonnes of coal to new customers in Europe during 1984 while retaining its share of the market elsewhere.

With the Greenhills Mine in its first full year of operation, total shipments of coal increased from 6.2 million tonnes in 1983 to 8.1 million tonnes in 1984. Coal shipments from Balmer were made up of 5.2 million tonnes of metallurgical coal and 250,000 tonnes of thermal coal, compared to 5.3 million tonnes of metallurgical coal in 1983. The 80 percent owned Greenhills Mine operated at full design capacity in 1984, shipping 1.8 million tonnes of metallurgical coal and 800,000 tonnes of thermal coal.

Balmer Operations were shut for two weeks in March and again for four weeks during the summer, allowing the Company to reduce the amount of its inventories and adjust coal production. Revisions to the mining plan prepared the way to make fundamental long-term changes in operations so that excess plant capacity, resulting from reduced demand, could be used to produce coal at lower cost.

In mid-year the Company announced that it would accelerate the phasing out of its underground mining operations, closing the Panel Six hydraulic mine in 1985, three years ahead of schedule. The Balmer North conventional underground mine will close in late 1987 as had been projected, once its reserves of coal have been exhausted. The two underground mines had been producing about 15 percent of Balmer's total coal production, but in this period of low demand, production requirements can be supplied by the more economical surface mine. In January 1985, combustion in an adjacent sealed off area filled the Panel Six mine with smoke and combustible gases, requiring an immediate





evacuation and permanent closing of the mine three months ahead of schedule. The Company took the full write-off of the Panel Six assets against its 1984 earnings, resulting in an extraordinary loss of \$14.7 million.

To lessen the impact on the 200 Panel Six employees affected by the originally planned closure of the mine, the Company had earlier introduced a variety of programs, including retraining for open pit operations, transfers to Greenhills and an early retirement option for those who qualified.

Effective with the start of the new coal contract year on April 1, 1984, the price of Balmer metallurgical coal sold to Japan was reduced by 74 cents per tonne to \$69.09. Minimum tonnage was set at 3.0 million tonnes through to March 31, 1985.

In November 1984, Westar Mining and its Japanese customers agreed to extend the Balmer contract for a further five years, from April 1, 1985 to March 31, 1990. As part of the agreement, the Company had to follow earlier industry settlements and agree to a price freeze at \$69.09 per tonne for the 1985 coal contract year which extends from April 1, 1985 until March 31, 1986. The freeze in price will require continued efforts in cost reduction over the next year.

A surge in sales forced the Greenhills Mine to cancel planned vacation shutdowns and work to capacity during its first year of operation. The Greenhills coal, which is a medium volatile, low ash product, has been well accepted in European markets. Cost control programs continued at Greenhills and the mining plan was revised, removing some higher cost coal from the scheduled production program over the longer term. Greenhills was the safest coal mine in Canada in 1984 with a record of 1.1 lost time accidents per 200,000 man hours worked.

In August 1984, Westar Mining and its Japanese customers agreed to reduce the price of Greenhills metallurgical coal by \$7.87 per tonne to \$78.39, effective April 1, 1984. In return, the buyers agreed to take their full contract commitment of 760,000 tonnes a year, plus or minus five percent, through to March 31, 1986; indicated their intention to extend the expiry date of their Greenhills contract from March 31, 1986 into the 1990's; advised of their acceptance of Westar Mining's 20 year plan for the Balmer Mine and agreed to explore the possibility of a yen payment agreement which would give Westar Mining access to Japanese financial markets and their lower interest rates.

Westshore Terminals Ltd.

Westshore Terminals, which marked the official inauguration of its expanded facilities in July, shipped 16.5 million tonnes of coal in 1984, compared to 11.8 million tonnes in 1983. The Roberts Bank port now has an annual capacity of 22 million tonnes. The \$130 million expansion coincided with the startup of two new mines in southeastern B.C. and one in Alberta, bringing to eight the number of mines shipping coal through the port. With the addition of new equipment and expanded capacity, employees were able to achieve a number of new loading records during the course of the year.

In March 1985, shareholders of Westar Mining signed a letter of intent for the sale of Westshore Terminals to Westar Industries Ltd., a wholly-owned subsidiary of B.C. Resources, for approximately \$115 million in Preferred shares in Westar Industries. In addition, Westshore will arrange to borrow funds to repay an existing loan from Westar Mining of \$90 million. The agreement contemplates a dividend by Westar Mining to its Common shareholders of \$95 million. Westar Industries will lend its share of the dividend back to Westar Mining. This loan will only be repayable

upon redemption of the Preferred shares. Westar Mining will continue to manage the port.

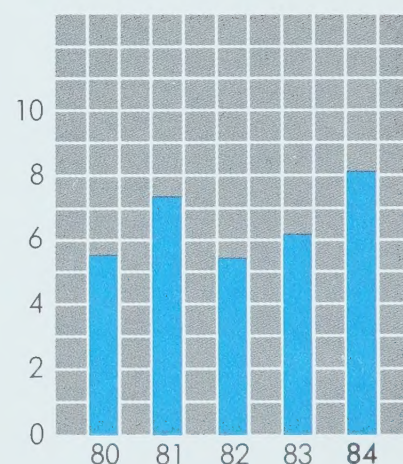
Brae Field

Westar Mining's 7.7 percent investment in the Brae Field off the east coast of Scotland experienced lower production volume than had been anticipated during its first full year of operation in the area known as South Brae. Mechanical problems on the large and very sophisticated drilling platform, combined with government restrictions on gas flaring limits resulted in underproduction. However the operator, Marathon Oil U.K., has progressively improved the efficiency of the equipment to the point where it is now able to meet the target rate of 112,000 barrels daily.

In 1984 South Brae produced a total of 31.6 million barrels of oil and natural gas liquids for the group of international companies which financed its development.

Westar Mining's share of annual production was about 4.1 million barrels, including the 1.7 million barrels it received for financing the capital costs of another company.

In 1985 the Company intends to refinance its US\$300 million credit facility for South Brae to put the required financing into



Total coal shipments
(millions of tonnes)

Includes all coal shipped from the 80 percent owned Greenhills Mine.

place to meet capital requirements for the North Brae development.

Development costs for the North Brae reservoir are running below forecast because of very competitive bidding by fabricators and suppliers and a saving on currency devaluation.

Other

The Company's consulting subsidiary, Westar Engineering, made steady progress during its first full year of operations in 1984. Its future thrusts will stress technical and mine management consulting, the exploration of equity positions in other mining operations and the possibility of joint venturing with other consulting companies on a project basis.

In the face of weak markets, Westar Mining International, the marketing arm of Westar Mining made substantial progress in solidifying long-term agreements with the Japanese steel mills while gaining a major new share of European business in 1984. Sales to Europe rose from 300,000 tonnes in 1983 to 1.4 million tonnes in 1984.

Westar Mining International opened an office in Paris in September to continue concentration on the European market, provide better service to established customers and to work toward

creating long-term customers out of its new 1984 sales business.

At Balmer Operations, the Company concluded collective agreements with the United Mine Workers of America and the Office and Technical Employees' Union, which remain in effect to December 31, 1985 and December 31, 1986, respectively. In September, a wage settlement was reached with the Greenhills Workers' Association for the period April 1, 1984 to March 31, 1985. Westshore Terminals reached new two-year agreements in May and July with its locals of the International Longshoremen's and Warehousemen's Union for the period through to January 31, 1986.

Faced with a situation of increasing costs and declining prices, Westar Mining's people responded to the challenge of keeping the Company competitive with other world suppliers. Employees played a major role in a Company-wide effort to reduce costs, while improving productivity and working more safely. The challenges ahead in 1985 will be even greater, given the flat price for coal through March 1986.

OUTLOOK

The Company will continue with its efforts to reduce costs while obtaining a greater share of markets in 1985. However, because of the outlook for price and demand, the Company will also be looking to other areas which offer the opportunity for diversification and growth in earnings. Greater emphasis will be put on strategic business planning in 1985 with a view to examining new opportunities which will complement existing operations.

World steel production is expected to increase only marginally. The oversupply of coking coal will continue to dominate the marketing picture. Thermal coal demand will increase modestly but also faces a situation of oversupply.

Canadian suppliers will continue to face a difficult competitive situation with respect to currency devaluation from the major competing suppliers in South

Africa and Australia. Already low cost producers by virtue of easier mining conditions and shorter rail hauls, they have enjoyed significant financial advantages against Canadian suppliers through recent currency devaluations.

Westar Mining, with its experienced people, reliable service and a record of cost control and high productivity has demonstrated that it can maintain an adequate and profitable share of world markets while looking for new areas of growth.

On behalf of the Board of Directors,



Bruce I. Howe
Chairman



Gary K. Livingstone
President

March 11, 1985

FINANCIAL SUMMARY

Highlights

The financial performance of the Company in 1984 was affected by the first full year of operation for the 80 percent owned Greenhills Mine, the expanded Westshore Terminals port and the South Brae oil and gas field. Continued weak coal markets resulted in decreases in the contract prices for Balmer and Greenhills metallurgical coal. Interest expense was substantially higher because interest is no longer capitalized on the completed major capital projects and because of higher rates on long-term debt, most of which is at floating rates. Early closure of the Balmer underground hydraulic mine resulted in an extraordinary loss.

Net Earnings

Consolidated earnings before extraordinary items in 1984 were \$40.9 million compared to \$60.7 million in 1983. Net earnings in 1984 of \$26.2 million included an extraordinary loss of \$14.7 million. There were no extraordinary items in 1983.

In January 1985, smoke and combustible gases from an underground fire caused the permanent closure of the Balmer under-

ground hydraulic mine. Assets were written off because of the fire resulting in the extraordinary loss of \$14.7 million after provision for recovery of income taxes of \$18.6 million.

The increase in revenues and corresponding increases in costs and expenses are primarily related to the new business from the Greenhills Mine, Westshore Terminals and the South Brae oil and gas field. Financial data relating to the Company's two major business segments has been supplied in Note M of the consolidated financial statements. Reference to this material will assist the reader in reviewing the Company's results of operations.

Coal

Revenue from coal operations increased by 21 percent to \$528.5 million in 1984 from \$437.8 million in 1983 as revenue increases at Greenhills and Westshore were partially offset by a reduction at Balmer.

Balmer revenues decreased by \$23.3 million primarily due to lower coal prices. The contract price for the sale of Balmer metallurgical coal to the Japanese steel mills, which had been reduced \$13

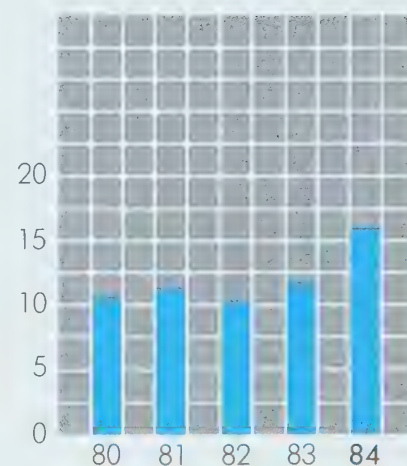
per tonne effective April 1, 1983, was reduced a further 74 cents per tonne effective April 1, 1984. Balmer shipped 5,191,000 tonnes of metallurgical coal and 250,000 tonnes of thermal coal in 1984, compared to 5,319,000 tonnes of metallurgical coal in 1983. The slight decline in metallurgical coal shipments was more than offset by Balmer's entry into thermal coal markets.

Revenues relating to the Company's share of coal shipments from the 80 percent owned Greenhills Mine increased by \$100.7 million in 1984, primarily due to the first full year of metallurgical coal production. Total shipments from the Greenhills Mine were 1,775,000 tonnes of metallurgical coal and 814,000 tonnes of thermal coal in 1984, compared to 344,000 and 507,000 tonnes respectively in 1983. The higher revenues associated with increased sales volume were partially offset by lower coal prices. The contract price for Greenhills metallurgical coal with the Japanese customers was reduced by \$7.87 per tonne effective April 1, 1984.

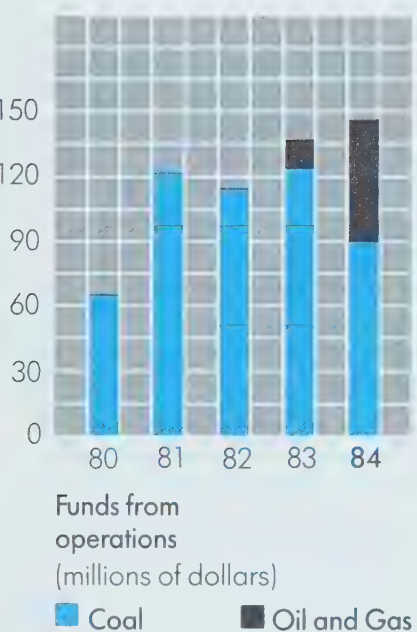
Higher revenues for Westshore Terminals in 1984 were due to increased shipment volumes and

higher port charges, both of which related to the port expansion program which was completed early in the year. A record 16.5 million tonnes were shipped through the port in 1984, up 40 percent from 11.8 million tonnes in 1983.

Operating profit for the coal segment declined in 1984 to \$90.6 million from \$110.6 million in 1983. The increased contribution to earnings from the first full year of metallurgical coal production from Greenhills and the expanded Westshore Terminals operations was more than offset by a substantial reduction in operating profit from Balmer Operations. Sales volumes for Balmer Operations were maintained by diversifying into the European market and through sales of thermal coal. However, selling prices were depressed due to the oversupply of coal in world markets. Balmer operating costs were kept in line primarily through introduction of a new 20 year mine plan with an improved overburden to clean coal ratio which will ensure that Balmer remains one of the most cost competitive exporters of metallurgical coal in Canada.



Westshore Terminals
total shipments
(millions of tonnes)



Oil and Gas

The Oil and Gas segment represents the Company's 7.7 percent investment in the Brae Field in the U.K. sector of the North Sea. Revenues from product sales increased by \$70.0 million to \$91.2 million, reflecting the first full year of South Brae field production. The Company's share of production in 1984 was 2,307,000 barrels of oil and 124,000 barrels of natural gas liquids, compared to 559,000 and 12,000 barrels respectively in 1983.

Under the terms of the acquisition of its interests in the Brae Field, the Company is obligated to finance another participant's share of exploration and development costs under a carried interest obligation. Interest income from these advances of \$25.0 million in 1984 offset, in part, interest costs on the South Brae field credit agreement used to finance both Westar's share and the carried interest.

Costs and expenses per barrel of production remained substantially unchanged from 1983.

Interest

Total interest costs on consolidated long-term debt increased to \$79.5 million in 1984 from \$72.4

million in 1983. Interest expense, net of capitalized interest, in 1984 amounted to \$72.8 million representing an increase of \$57.4 million over 1983. This increase was due to less interest being capitalized as a result of the completion of the Greenhills Mine, Westshore Terminals expansion and the South Brae field and higher interest rates in 1984.

Funds from Operations

Funds provided by operations were \$146.0 million in 1984 compared to \$137.8 million in 1983. The increase in funds flow is primarily attributable to the first full year of South Brae field production. In Canada, improved cash flow from the Greenhills and Westshore Terminals operations was more than offset by a reduction in funds generated from Balmer Operations.

Capital Expenditures

Capital expenditures for 1984 were \$42.4 million compared with \$180.7 million in 1983 and \$365.8 million in 1982, reflecting the completion of the Company's major capital projects. The majority of 1984 expenditures related to the continued development of the South Brae and North Brae fields.

The production platform for the North Brae field is expected to be completed and in operation in 1988.

Long-term Debt

Long-term debt decreased by \$86.6 million to \$610.4 million at December 31, 1984 from \$697.0 million at the end of 1983. With lower capital expenditures in 1984, the Company was able to apply the majority of funds provided by its operations to reducing the amount of debt. The Canadian dollar equivalent of U.S. dollar denominated debt outstanding at year end compared to December 31, 1983 was affected by the weaker Canadian dollar. The exchange rate for the U.S. dollar in terms of the Canadian dollar at December 31, 1984 was \$1.3214 compared to \$1.2444 a year earlier. However, since oil revenues are priced in U.S. dollars the Company has a natural hedge against exchange fluctuations in its U.S. dollar denominated debt.

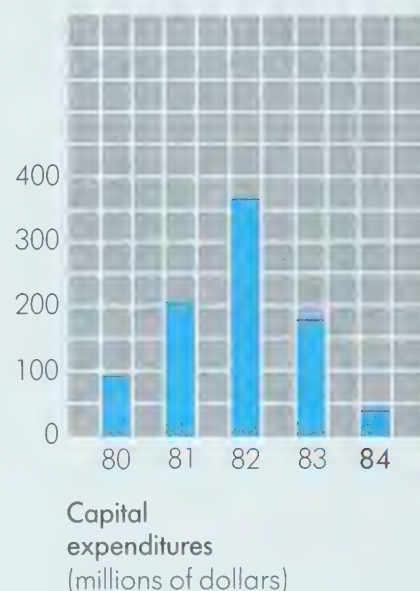
Management's Responsibility for Financial Reporting

The information and consolidated financial statements in the Annual Report are the responsi-

bility of management and the Board of Directors of the Company. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles.

Touche Ross & Co., who were appointed by the shareholders as the Company's auditors, have examined the consolidated financial statements in order to express their opinion as to whether the consolidated financial statements present fairly the Company's financial position, results of operations and changes in financial position in accordance with generally accepted accounting principles applied on a consistent basis. Their report is presented with the consolidated financial statements.

The Audit Committee of the Board of Directors meets with management and the auditors to ensure that they are fulfilling their responsibilities and reviews with them the consolidated financial statements before approval of the statements by the Board of Directors.

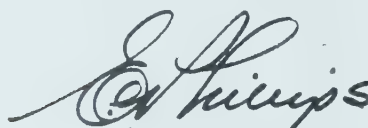


Consolidated Statement of Earnings

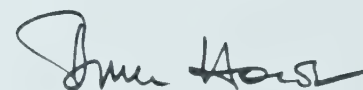
For the year ended
December 31, 1984

	1984	1983
	(Thousands)	
Revenue (Notes L, M)	\$646,395	\$465,426
Costs and expenses:		
Cost of products sold	372,126	275,078
General and administrative	47,519	33,561
Interest on long-term debt (Note H)	72,804	15,425
Depreciation, depletion and amortization	73,257	31,444
	565,706	355,508
Earnings before income taxes and extraordinary item	80,689	109,918
Provision for income taxes (Note I)	39,767	49,262
Earnings before extraordinary item	40,922	60,656
Extraordinary loss (Note J)	14,724	—
Net earnings	\$ 26,198	\$ 60,656
Earnings per common share after preferred share dividends:		
Before extraordinary loss	\$ 1.99	\$ 3.26
Net earnings	1.18	3.26

Approved by the Directors:



Edwin C. Phillips, *Director*



Bruce I. Howe, *Director*

Consolidated Balance Sheet

As at December 31, 1984

Assets	1984	1983
	(Thousands)	
Current assets:		
Accounts receivable	\$ 30,187	\$ 18,515
Inventories (Note C)	50,002	66,576
Prepaid expenses	3,020	2,157
	83,209	87,248
Property, plant, equipment and related development costs (Note M)	826,471	867,191
Exploration and development advances (Note G)	243,475	220,446
Other assets	28,561	32,238
	\$1,181,716	\$1,207,123
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	\$ 5,649	\$ 315
Accounts payable and accrued liabilities	65,817	56,883
Income taxes payable	6,548	2,972
	78,014	60,170
Long-term debt (Note D)	610,358	697,044
Deferred income taxes	216,586	202,173
Shareholders' equity:		
Capital stock (Notes E, F)	63,248	63,248
Contributed surplus	15,232	15,232
Retained earnings	190,841	169,256
Translation adjustments (Note B)	7,437	—
	276,758	247,736
	\$1,181,716	\$1,207,123

Consolidated Statement of Changes in Financial Position

For the year ended
December 31, 1984

	1984	1983
	(Thousands)	
Operating activities		
Earnings before extraordinary item	\$ 40,922	\$ 60,656
Depreciation, depletion and amortization	73,257	31,444
Deferred income taxes	31,795	45,718
Funds provided by operations	145,974	137,818
Reduction (increase) in working capital	16,549	(15,201)
Dividends on preferred shares	(4,613)	(1,116)
Funds provided by operating activities	157,910	121,501
Investing activities		
Additions to property, plant and equipment	42,403	180,729
Exploration and development advances:		
Amounts advanced	54,991	57,321
Repayments received	(51,875)	(13,447)
Other	(315)	(4,311)
Funds invested	45,204	220,292
Funds generated (required)	112,706	(98,791)
Financing activities		
Additions to (repayments of) long-term debt	(118,040)	57,556
Issuance of preferred shares	—	43,574
Funds provided by financing activities	(118,040)	101,130
Increase (decrease) in cash	(5,334)	2,339
Bank indebtedness at beginning of year	(315)	(2,654)
Bank indebtedness at end of year	\$ (5,649)	\$ (315)

Consolidated Statement of Retained Earnings

For the year ended
December 31, 1984

	1984	1983
	(Thousands)	
Balance at beginning of year	\$169,256	\$111,142
Net earnings	26,198	60,656
Dividends on preferred shares	(4,613)	(1,116)
Expenses relating to issue of preferred shares	—	(1,426)
Balance at end of year	\$190,841	\$169,256

The Shareholders
Westar Mining Ltd.

We have examined the consolidated balance sheet of Westar Mining Ltd. as at December 31, 1984 and the consolidated statements of retained earnings, earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in accounting for foreign currency translation as explained in Note B to the consolidated financial statements.

Touche Ross & Co.

Touche Ross & Co.
Chartered Accountants

Vancouver, British Columbia
January 28, 1985

Auditors' Report

Notes to the Consolidated Financial Statements

December 31, 1984

Note A — Summary of Significant Accounting Policies

Accounting Principles:

The Company is incorporated under the Company Act of the Province of British Columbia and prepares its accounts in accordance with generally accepted accounting principles followed in Canada.

Principles of Consolidation:

The consolidated financial statements include the accounts of all subsidiaries. The principal subsidiaries are Westshore Terminals Ltd. and Westar Holdings (U.K.) Limited. The Company has an 80% interest in the Greenhills Mine Joint Venture which is proportionately consolidated.

Translation of Foreign Currencies:

Assets and liabilities denominated in foreign currencies are translated at rates of exchange in effect at the balance sheet date; revenue and expenses are translated at rates prevailing during the year. Provisions for loss from exchange rate fluctuations and gains and losses realized on transactions completed during the year are included in earnings. Exchange fluctuations relating to the translation of investments in self-sustaining foreign operations are deferred as a separate component of shareholders' equity.

Inventories:

Coal inventories are valued at the lower of average cost and net realizable value. Depreciation, depletion and amortization are not included in coal inventory costs. Operating supplies are valued at average cost less a provision for obsolescence.

Property, Plant, Equipment and Related Development Costs:

Property, plant and equipment are stated at cost. During the construction or development stages of major capital projects, interest is capitalized as a cost of these projects on the basis of expenditures incurred without restriction to specific borrowings for these projects. Replacements and major improvements are capitalized. Costs of assets sold, retired or abandoned and the related amounts of accumulated depreciation are eliminated from the accounts. Gains or losses on such dispositions are included in earnings. Expenditures for repairs and maintenance of plant and equipment are charged against earnings. Plant and equipment is depreciated on a unit of production method over the estimated useful lives of the assets.

Acquisition costs of coal reserves are capitalized and depleted by the unit of production method. Coal exploration costs are charged against earnings when incurred. Costs incurred in connection with feasibility studies for new mining projects are capitalized and charged against earnings over the life of the mine or written off when it is determined that the project is not feasible. Preproduction and development costs are capitalized and amortized on the straight line basis over the life of each mine.

Oil and gas properties are accounted for using a form of the full cost method whereby all acquisition, exploration and development costs are capitalized as incurred by cost centre and are depleted on the unit of production method. The Company carries its oil and gas properties at the lower of capitalized cost or net recoverable value. The recoverability of costs capitalized net of accumulated depletion is reviewed annually based on estimates of proven oil and gas reserves, prices and costs. Costs related to certain unproven oil and gas properties are excluded from costs subject to depletion. These properties are reviewed periodically to assess the extent to which the carrying value has been impaired with any required provision for impairment being included in costs subject to depletion.

Notes to the Consolidated Financial Statements

(cont'd)

Pension Plans:

Annual contributions to employee pension plans are charged against earnings. Pension contributions are actuarially determined to include amounts necessary to provide for current service and for funding of past service liabilities over 15 years.

Income Taxes:

Income taxes are accounted for by the tax allocation method, whereby the provision for taxes is made in the year transactions affect net earnings rather than when such items are recognized for tax purposes. Differences between the provision for taxes and taxes currently payable are reflected as deferred income taxes. Tax benefits from investment tax credits claimed and earned depletion are reflected as a reduction in the provision for income taxes.

Note B — Change in Accounting Policy

The Company has adopted prospectively the new foreign currency translation method recommended by the Canadian Institute of Chartered Accountants. Under this method the assets and liabilities of self-sustaining foreign operations are translated at rates of exchange in effect at the balance sheet date with the resultant translation adjustment being deferred as a separate component of shareholders' equity. Previously non-current assets and liabilities were translated at historic exchange rates and provisions for loss from exchange rate fluctuations were included in earnings while unrealized exchange gains were deferred. This change had no significant effect on net earnings for 1984.

The effect of translating the Company's assets and liabilities in the United Kingdom at current exchange rates is as follows:

	1984 (Thousands)
Change in accounting policy, effective January 1, 1984	\$3,881
Translation adjustments during the year	3,556
Balance at end of year	\$7,437

Note C — Inventories

	1984 (Thousands)	1983
Coal	\$27,908	\$43,220
Operating supplies	22,094	23,356
	\$50,002	\$66,576



Notes to the Consolidated Financial Statements

(cont'd)

Note D — Long-term Debt

	1984 (Thousands)	1983
Bank Credit Agreements:		
\$300,000,000 credit facility	\$298,643	\$290,669
\$ 70,000,000 credit facility	—	39,000
South Brae Field Credit Agreement (U.S.\$217,518,000)	287,428	354,579
Other	24,287	12,796
	\$610,358	\$697,044

Bank Credit Agreements:

Borrowings under these agreements can be in bankers' acceptances or direct borrowings in Canadian dollars, U.S. dollars or Eurocurrencies with interest based on Canadian prime rate, U.S. base rate or London Interbank Offered Rate (LIBOR) respectively. The interest rate on U.S.\$60,000,000 has been fixed at 12.5% through an interest rate swap agreement expiring October, 1990. The average cost of borrowings under these agreements at December 31, 1984 was 12.2%.

The amount borrowed under the \$300,000,000 credit facility is a revolving loan which converts to a term loan on January 2, 1986. The principal outstanding at that date is to be repaid through seven equal annual installments commencing January 2, 1987.

The \$70,000,000 credit facility is a revolving loan which converts to a term loan on June 30, 1985. The principal outstanding at that date is to be repaid in fourteen equal semi-annual installments commencing January 2, 1986.

South Brae Field Credit Agreement:

This U.S.\$300,000,000 credit facility is secured by fixed and floating charges on the interests of the Company's United Kingdom subsidiaries in the licences, assets and revenues relating to the South Brae field and is repayable from proceeds of production. Repayment of U.S.\$175,000,000 is further secured by a Westar Mining Ltd. guarantee which may be released in part if certain production and economic criteria are met. The maximum principal payments on the guaranteed portion are U.S.\$21,875,000 semi-annual installments commencing June 30, 1985. The principal amounts due in 1985 will be paid from production proceeds or unutilized existing long-term credit facilities. Interest is charged at LIBOR plus $\frac{5}{8}\%$ to $\frac{7}{8}\%$.

Other:

Other bank credit agreements relate to revolving operating loans which can be replaced with term financing under unutilized existing long-term credit facilities.

Notes to the Consolidated Financial Statements

(cont'd)

Note E — Capital Stock

The authorized share capital is comprised of 5,000,000 Class A Preferred Shares of \$25 par value each and 28,000,000 Common Shares of \$1 par value each. The issued share capital is as follows:

	1984 (Thousands)	1983
1,800,000 \$2.5625 Cumulative Redeemable Class A Preferred Shares, Series 1	\$45,000	\$45,000
18,247,530 Common Shares	18,248	18,248
	<u>\$63,248</u>	<u>\$63,248</u>

The Series 1 Preferred Shares are retractable at the option of the holder on April 15, 1989 and October 15, 1992 at \$25 per share plus accrued and unpaid dividends. The shares are redeemable commencing April 15, 1989 at \$26.25, declining annually to \$25 on April 15, 1993.

Note F — Dividend Restriction

The South Brae Field Credit Agreement contains certain restrictive covenants. Under these covenants, the Company is unable to pay dividends on common shares at December 31, 1984.

Note G — Commitments

The Company has interests in several licences for the exploration and development of oil and gas in the United Kingdom sector of the North Sea. Under the terms of the acquisition of its interests, the Company is obligated to finance an amount, equivalent to its own share of exploration and development costs, for another participant under a carried interest obligation. Amounts advanced under the carried interest obligation, net of repayments, amounted to \$243,475,000 (U.S.\$184,215,000) at December 31, 1984 and are repayable with interest solely out of 70% of the net proceeds earned by this other participant from production of oil and gas from the licensed areas. Production commenced in 1983 in the area designated as the South Brae field.

Development commenced in 1983 in an area of the Brae Field designated as North Brae in which the Company holds a 7.7% working interest. The Company's share of capital expenditures together with its carried interest obligation based on the operator's estimate, is expected to be pounds sterling 241,000,000 of which \$50,400,000 (pounds sterling 33,000,000) was spent to December 31, 1984.

The Company is required to make future minimum rental payments under operating leases extending to 2002 of \$11,996,000 in 1985, \$9,265,000 in 1986, \$8,367,000 in 1987, \$9,140,000 in 1988, \$9,854,000 in 1989 and escalating to \$26,100,000 by 2002.

Note H — Interest on Long-term Debt

Interest on long-term debt in the amount of \$6,679,000 in 1984 and \$41,641,000 in 1983 has been capitalized as part of the cost of property, plant, equipment and related development costs.

Notes to the Consolidated Financial Statements

(cont'd)

Note I — Provision for Income Taxes

	1984	1983
	(Thousands)	
Current:		
Federal and provincial income taxes	\$ 5,325	\$ 2,176
British Columbia mining tax	2,647	1,368
	7,972	3,544
Deferred:		
Federal and provincial income taxes	12,986	32,947
British Columbia mining tax	3,519	9,579
United Kingdom corporation tax	15,290	3,192
	31,795	45,718
	\$39,767	\$49,262

The difference between the income tax rates recorded and those obtained by applying the combined federal and provincial statutory rates is as follows:

	1984	1983
Statutory federal and provincial income tax rate	52.0%	52.0%
Increase (decrease) resulting from:		
Non-deductible payments to provincial governments for mining taxes, royalties and mineral land tax	10.0%	12.7%
Federal resource allowance	(9.7%)	(8.9%)
Earned depletion	(3.6%)	(9.1%)
Other	0.6%	(1.9%)
Effective tax rate	49.3%	44.8%

At December 31, 1984, the Company has accumulated earned depletion benefits of \$14,000,000 for Federal tax purposes and investment tax credits of approximately \$6,000,000 which are available to reduce future income taxes. The majority of the investment tax credits will expire in 1987.

Notes to the Consolidated Financial Statements

(cont'd)

Note J — Extraordinary Item

The extraordinary item represents a loss of \$14,724,000 on the abandonment of the underground hydraulic mine net of deferred income taxes of \$18,550,000.

Note K — Pension Plans

The Company has pension plans for hourly and salaried employees. At December 31, 1984, the unfunded past service liability amounted to \$5,700,000 and is being funded and charged to earnings over a period not exceeding 15 years.

Note L — Related Party Transactions

The Company sells metallurgical coal produced from its Balmer mines to Mitsubishi Corporation for resale to nine Japanese corporations under a long-term contract expiring on March 31, 1985. Through a memorandum of agreement dated November 15, 1984, Mitsubishi Corporation has agreed to purchase Balmer metallurgical coal to March 31, 1990. The Company sells metallurgical coal produced from its Greenhills mine directly to the nine Japanese corporations under contracts which expire on March 31, 1986. The buyers have signed a letter of intent to extend these contracts beyond the current expiry date. At December 31, 1984, Mitsubishi Corporation together with the nine Japanese corporations owned 33.4% of the Company's outstanding common shares. Sales to Japan under these contracts amounted to 51% of the Company's coal revenues in 1984 and 60% in 1983.

Pohang Iron & Steel Company Limited of Korea, which has a 20% interest in the Greenhills Mine Joint Venture, purchases Balmer and Greenhills metallurgical coals from the Company under long-term contracts extending through March 31, 1985 and 2002 respectively. Negotiations for the extension of the Balmer contract are scheduled to commence in February, 1985. Sales under these contracts amounted to 15% of the Company's coal revenues in 1984 and 20% in 1983.

In 1984 and 1983 the Company reimbursed a subsidiary of British Columbia Resources Investment Corporation \$971,000 and \$870,000 respectively for the cost of certain centralized management and administrative services and paid fees of \$104,000 and \$401,000 respectively for a loan guarantee. British Columbia Resources Investment Corporation through this wholly-owned subsidiary owns 66.6% of the outstanding common shares of the Company.



Notes to the Consolidated Financial Statements

(cont'd)

Note M — Segmented Information

	1984 (Thousands)		
	Consolidated	Coal	Oil & Gas (U.K.)
Revenue			
Export	\$ 586,016	\$494,817	\$ 91,199
Domestic	35,656	35,656	—
Interest on exploration and development advances	24,958	—	24,958
Other income, net	(235)	(1,988)	1,753
	\$ 646,395	\$528,485	\$117,910
Operating Profit	\$ 153,493	\$ 90,633	\$ 62,860
Interest on long-term debt	72,804		
Provision for income taxes	39,767		
Earnings before extraordinary loss	\$ 40,922		
Depreciation, depletion and amortization	\$ 73,257	\$ 45,230	\$ 28,027
Capital Expenditures	\$ 42,403	\$ 12,452	\$ 29,951
Property, plant, equipment and related development costs:			
Cost	\$1,052,490	\$755,887	\$296,603
Accumulated depreciation, depletion and amortization	226,019	190,960	35,059
Net	\$ 826,471	\$564,927	\$261,544
Total Assets	\$1,181,716	\$662,298	\$519,418
	1983		
Revenue			
Export	\$ 438,701	\$417,514	\$ 21,187
Domestic	16,002	16,002	—
Interest on exploration and development advances	4,473	—	4,473
Other income, net	6,250	4,305	1,945
	\$ 465,426	\$437,821	\$ 27,605
Operating Profit	\$ 125,343	\$110,641	\$ 14,702
Interest on long-term debt	15,425		
Provision for income taxes	49,262		
Earnings before extraordinary loss	\$ 60,656		
Depreciation, depletion and amortization	\$ 31,444	\$ 25,163	\$ 6,281
Capital Expenditures	\$ 180,729	\$125,863	\$ 54,866
Property, plant, equipment and related development costs:			
Cost	\$1,046,211	\$802,448	\$243,763
Accumulated depreciation, depletion and amortization	179,020	172,739	6,281
Net	\$ 867,191	\$629,709	\$237,482
Total Assets	\$1,207,123	\$741,813	\$465,310

The financial statements include \$277,842,000 and \$259,067,000 in assets; and \$11,971,000 and \$10,753,000 in liabilities of the Greenhills Mine Joint Venture in 1984 and 1983 respectively.

	1984	1983	1982	1981	1980
	Thousands except per share data				
Sales					
Coal shipments — (tonnes)					
— Metallurgical	6,966	5,663	4,955	6,778	5,359
— Thermal	1,064	507	478	483	252
Oil production — (barrels)	2,307	559	—	—	—
Revenue					
Coal	\$ 530,473	\$ 433,516	\$ 430,609	\$511,771	\$365,403
Oil and gas	91,199	21,187	—	—	—
Interest and other income, net	24,723	10,723	1,235	1,797	11,920
Total	\$ 646,395	\$ 465,426	\$ 431,844	\$513,568	\$377,323
Earnings					
Before extraordinary items	\$ 40,922	\$ 60,656	\$ 51,380	\$ 70,534	\$ 42,396
Net earnings	26,198	60,656	72,832	70,534	272,824
Share Statistics					
Weighted average number of shares outstanding	18,248	18,248	18,248	18,265	19,834
Earnings per common share:					
Before extraordinary items	\$ 1.99	\$ 3.26	\$ 2.82	\$ 3.86	\$ 2.14
Net earnings	1.18	3.26	3.99	3.86	13.76
Dividends					
— Common shares	—	—	—	9.56	1.00
— Preferred shares	2.56	.62	—	—	—
Other Financial Data					
Cash flow from continuing operations	\$ 145,974	\$ 137,818	\$ 115,655	\$121,314	\$ 65,171
Working capital (deficiency)	5,195	27,078	9,538	(24,104)	(13,224)
Capital expenditures	42,403	180,729	365,750	210,819	95,601
Total assets	1,181,716	1,207,123	1,012,523	663,002	434,960
Total long-term debt	610,358	697,044	639,488	369,422	52,853
Shareholders' equity	276,758	247,736	144,622	71,790	183,351

Shipments include all coal shipped from the 80 percent owned Greenhills Mine.

Five Year Review

CORPORATE DIRECTORY

Directors

Bruce I. Howe*

President and Chief Executive Officer

British Columbia Resources Investment Corporation
Vancouver (a diversified natural resource company)

Walter J. Riva*

Chairman of the Board
British Columbia Resources Investment Corporation
Vancouver

Jean G. Cormier

Senior Vice President, Corporate Affairs
British Columbia Resources Investment Corporation
Vancouver

Ichiro Sonoda

Managing Director
Mitsubishi Corporation
Tokyo (a trading company)

Takashi Imai

Managing Director
Nippon Steel Corporation
Tokyo (steel manufacturing)

Lucille M. Johnstone†

Senior Vice President Administration and Secretary
RivTow Straits Limited
Vancouver (a marine, shipyard, aggregates and industrial equipment company)

Gary K. Livingstone*

President
Westar Mining Ltd.

Hiroshi Ono

Managing Director
Nippon Kokan Kabushiki Kaisha
Tokyo (steel manufacturing)

Edwin C. Phillips†

Consultant
Westcoast Transmission Company Limited
Vancouver (an oil and gas transmission company)

L. Jack Smith*†

Executive Vice President and Chief Operating Officer
British Columbia Resources Investment Corporation
Vancouver

*Member of Executive Committee

†Member of Audit Committee

Officers

Bruce I. Howe

Chairman of the Board and Chairman of the Executive Committee

Walter J. Riva

Vice Chairman of the Board

Gary K. Livingstone
President

Robert H. Gronotte
Senior Vice President, Engineering and Capital Projects

Thomas A. Beckett
Vice President, General Counsel and Secretary

Robert H. Brady
Vice President, Marketing

Richard J. Chase
Vice President, Planning and Business Development

Robert F. Chase
Vice President, Finance and Treasurer

INFORMATION

Brant E. Ducey
Vice President, Public Affairs

Gary S. Duke
Vice President, Government Relations

Arthur E. Geikie
Vice President, Human Resources and Administration

W. Larry Millar
Vice President and Controller

John A. Powell
Vice President, Coal Mining Operations

Robert C. Stanlake
Vice President, Port Operations

Michael F. Pang
Assistant Secretary

Suzanne K. Wiltshire
Assistant Secretary

Subsidiary Management

Robert H. Brady
President
Westar Mining International Ltd.

Robert C. Stanlake
President
Westshore Terminals Ltd.

Robert H. Gronotte
President
Westar Engineering Ltd.

W. Robert Mendes
Managing Director
Westar Oil (U.K.) Limited

Corporate Office
1176 West Georgia Street
Vancouver, B.C. V6E 4B8
(604) 681-8222

Balmer Operations
P.O. Box 2000
Sparwood, B.C. V0B 2G0
(604) 425-8221

Greenhills Operations
P.O. Box 4000
Elkford, B.C. V0B 1H0
(604) 865-4621

Westshore Terminals Ltd.
Roberts Bank
Delta, B.C. V4K 3N2
(604) 946-4491

Westar Oil (U.K.) Limited
90 Long Acre
London, England
WC2E 9NP
(011 441) 240-8035

Westar Mining International Ltd.
Paris Office
Monceau Commercial Building
38, Rue de Lisbonne
75008 Paris, France
563-0310

Tokyo Office
DF Building, 7th Floor
2-2-8, Minami Aoyama
Minato-Ku, Tokyo 107 Japan
402-9547

Auditors
Touche Ross & Co.

Transfer Agent and Registrar
The Royal Trust Company
Vancouver, Calgary, Regina,
Winnipeg, Toronto and Montreal

Preferred Shares Listed
Vancouver Stock Exchange
The Toronto Stock Exchange

Annual Meeting
The annual meeting of shareholders will be held on May 23, 1985.

